



Controller John Chiang
California State Controller's Office

300 Capitol Mall
Sacramento, CA
95814
916.445.2636
www.controller.ca.gov

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Contact: Jacob Roper
916-445-2636

Controller Review of Health Care Services Hearing Aids Program Finds Millions in Waste

SACRAMENTO – State Controller John Chiang today released his review questioning millions of dollars in reimbursements to Medi-Cal hearing aid providers. In a [letter](#) to the Department of Health Care Services (DHCS), the Controller recommended rate changes that could save the State up to \$27.4 million over a three-year period.

"At a time when health care services to California's neediest are being cut to the bone, I urge the department to reconsider policies that cause taxpayers to pay not only up to \$3 for every \$1 of goods provided, but also for services never rendered," said Chiang. "Spending less needs to be paired with spending smartly."

The review stemmed from a March 2011 State Controller's Office (SCO) report in which auditors questioned more than \$500,000 in reimbursements paid to one Medi-Cal audiologist. The review revealed a significant difference between what the audiologist paid for hearing aids, and the amount he was reimbursed by DHCS. In one case, the audiologist had purchased a pair of hearing aids for \$120, but under the DHCS Medi-Cal reimbursement policy in effect at the time, he was reimbursed \$1,465.

SCO auditors expanded their scope to review 60 claims filed in 2009 by five other Medi-Cal audiologists and hearing aid providers. The review found that discounts and rebates were offered to the providers, resulting in a significant difference between the actual acquisition costs for the providers and the wholesales costs reported to DHCS that are used to determine the reimbursement rate. For example, one provider paid \$436 for a hearing aid and was reimbursed for a wholesale cost of \$1,218, almost three times the acquisition cost.

The review also found that DHCS had failed to comply with a 2007 state statute requiring DHCS to enter into contracts with vendors of hearing aid appliances by June 30, 2008. Consequently, providers may purchase hearing aids from a variety of vendors and there are no guidelines related to approved vendors or products, making it difficult to determine the quality of vendors and the level of care provided to Medi-Cal clients. The review further noted that audiologists were being reimbursed for fitting the hearing aids and up to six follow-up visits per client. However, the audiologists reviewed had little or no documentation showing how many follow-up visits were actually made, nor are they required to submit it.

SCO auditors made several attempts to meet with DHCS to discuss their findings. Before they were able to meet, DHCS issued new instructions that revised the way reimbursement would be calculated. The Controller believes the new reimbursement guidelines are a constructive first step, but believes additional savings could be achieved by further revising the original policy in one of the following ways:

- Using the current Medi-Cal methodology, but substituting the actual acquisition costs instead of the one-unit wholesale cost to the formula, would save \$25.5 million, or 41 percent;
- Using the Durable Medical Equipment reimbursement methodology, which is the actual acquisition cost plus a 100 percent mark-up, would save \$18.7 million, or 30 percent; or
- Using the current reimbursement policy of the California Children's Services, which is the actual acquisition cost plus a 60 percent mark-up, would save \$27.4 million, or 44 percent.

In addition to developing a new reimbursement methodology, DHCS also should provide assurance that the State is obtaining the most favorable prices by implementing the 2007 statute requiring contracts with vendors. The Controller believes this would help ensure the quality of hearing aid products provided to Medi-Cal beneficiaries.

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